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DE RUEHKO #5887/01 2840217
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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 7266
RHEHAAA/WHITE HOUSE WASHDC
INFO RUEHFR/AMEMBASSY PARIS 5057
RUEHOK/AMCONSUL OSAKA KOBE 1761
RUEHKS/AMCONSUL SAPPORO 9466
RUEHNAG/AMCONSUL NAGOYA 8095
RUEHFK/AMCONSUL FUKUOKA 8390
RUEHNH/AMCONSUL NAHA 0931
RUCPDO/USDOC WASHDC

UNCLAS SECTION 01 OF 04 TOKYO 005887

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SUBJECT: The Japan Economic Scope - Economic News At-A-Glance.

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12. (U) The Japan Economic Scope (JES) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the October 6, 2006, JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email ProgarJ@state.gov.

EB DAS Moore Discusses IPR, Economic Relationship in Tokyo

13. (U) EB DAS Chris Moore covered a range of issues during meetings with government and business leaders during a visit to Tokyo September 21-22. He pressed for more cooperation on IPR, including for a "Gold

Standard" agreement on anti-counterfeiting. For more details on his visit please see Tokyo 5773 and Tokyo 15805.

Investment Initiative Looks Toward Future under Abe Government

14. (SBU) Ambassador Mike Michalak, in Tokyo from September 27 - October 3, met with a range of government officials and private sector representatives to discuss the future direction of the bilateral U.S.-Japan Investment Initiative under the new Abe government. He reached tentative agreement with Initiative co-chair, METI Director General Tsunehiro Ogawa, on holding the next investment

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working group meeting in mid October, via DVC.

15. (SBU) The U.S. proposed agenda for the DVC includes status reports on pending regulations on triangular merger and related tax deferral; ongoing problems with taxation of local branches of foreign universities, labor mobility issues and discussion on a future program of work.

16. (SBU) The two chairs discussed a number of ideas for the future work plan. Americas Director Mita, also at the meeting, liked the U.S. idea of undertaking a review of investment chapters in existing FTAs to identify whether an improved bilateral investment text was needed. He balked, however, at explicitly linking this effort to a "building block" approach for a future US-Japan FTA, saying this risked a backlash among more protectionist

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elements in the GOJ. METI officials were more interested in using the review to push regional integration efforts and encourage potential future FTA partners to consider stronger investment provisions. METI officials admitted ruefully that Japan had failed to get strong enough investment language in several recently concluded Economic Partnership Agreements with Southeast Asian countries. Ogawa also suggested the investment discussion in the working group might draw on work already underway in APEC on model investment guidelines, an effort led by Japan.

Michalak Meetings Signal Progress on Some Investment Issues

17. (SBU) In discussions with visiting APEC Senior Official Mike Michalak, METI and MOF both confirmed that revisions in the commercial code allowing mergers using foreign stock as consideration ("triangular mergers") are likely to go into effect as planned in April 2007 without the highly restrictive definitions under consideration last Spring. The LDP Tax Committee will be asked this fall to decide on deferral of taxes on such mergers.

18. (SBU) Efforts to gain tax exemption for U.S. university branch campuses in Japan have been less successful. Since their earlier suggestion that Temple University seek to obtain tax exemption by applying to Tokyo regional government for vocational school status has now failed, Education Ministry officials told Michalak they were now willing to meet again with Temple to seek a national-level solution. On labor mobility issues, several interlocutors agreed that it could be advantageous to position our issues (pension portability, layoff compensation, management flexibility) in the context of PM Abe's "second-

chance" initiative for those disadvantaged by economic reform. One economist told Michalak that Japan's labor force is under increasing "strain" and MHLW will have to take action to improve training and labor policies if Japan is to avoid serious economic consequences in the next few years.

¶9. (SBU) Michalak received a positive reaction from both the public and private sector to the idea of promoting investment by strengthening ties between U.S. state investment promotion offices and prefectural level economic development officials in Japan who might benefit from the U.S. states' experience in this area. Japanese business organizations that promote inward FDI lamented lack of effectiveness of many Japanese regional government investment programs.

¶10. (SBU) Business leaders also welcomed Michalak's idea of inviting the Industrial Revitalization Corporation of Japan to a future working group meeting to brief both governments on "lessons learned" in dealing with corporate failures and to discuss how investment funds can act as "change agents" in efforts to improve corporate governance and the investment environment in Japan.

AIG flags interest in Japan Post, retirement services and annuities markets in Japan

¶11. (SBU) The CEO of insurance giant AIG, Martin Sullivan, flew into Kobe for meetings to mark subsidiary AIU's 15th anniversary and to give a speech on October 2 in Kobe, where AIG has a call center and financial operations. At a private lunch hosted by the Hyogo Governor, CG Russel raised the issue of privatization of the Japan Post. Sullivan said AIG was very focused on creating a level playing field in

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the insurance market and welcomed help from all quarters, including judicious lobbying by local Japanese stakeholders. He promised to send company briefing material to the governor and CG. Sullivan added that in light of AIG's financial services operations he was tremendously interested in access to the \$1.7 trillion in Postal Savings assets (1/4 of Japanese household assets) that were being "wasted." Sullivan told CG that Japan is tremendously important to AIG, noting that nearly a third of the global giant's workforce is in Japan. He said one "takeaway" from his visit was the sense of opportunities in the retirement services and annuities market, particularly in light of the skepticism by many younger Japanese that the national pension system will be solvent when their turn comes.

US Beef Caravan Comes to Sapporo

¶12. (U) As part of a Japan-wide campaign, the US Meat Export Federation (USMEF) hosted a series of events in Sapporo on September 29-30 to promote the safety and overall great taste of US beef. USMEF organized a trade/marketing seminar and reception for wholesalers, trading companies, meat processing companies, and hotels interested in learning more about U.S. beef. The U.S. Consulate General supported these events, with Consul General Marrie Schaefer encouraging the seminar attendees to resume US beef purchases. At the same time, the "We Care" kitchen car set up in front of Sapporo Station and at a local supermarket gave away more than 500 free samples of U.S. beef.

Gradual Progress as Postal Privatization Proceeds

¶13. (SBU) A round of meetings with GOJ officials involved with postal privatization indicates gradual progress toward the goals of greater transparency and a level playing field. Contacts assured us that the Japan Post Corporation (JPC) could not obtain approval for new products through its July submission of a framework implementation plan and that each new product request would be reviewed individually. The officials (except from JPC) voiced support for the need for transparency and a level playing field, but most also balanced this with a perceived need for new products to make JP companies' IPOs successful. Of possible concern is that the GOJ has yet to come to consensus on how to handle express mail services during the privatization. Details can be found in Tokyo 5686.

Rejuvenating Hokkaido through Niche Marketing

¶14. (U) With Hokkaido continuing to experience economic difficulties, government, business and citizen groups are encouraging Hokkaido residents to reinvent the island's economy by pursuing new strategies. Some private businesses have answered the local government's call for diversification by investing in non-traditional sectors and pursuing niche-marketing approaches. For more information, see Sapporo 00084.

Kobe Airport (UKB) finally launches international business jet service

¶15. (U) Dropping the fig leaf that UKB would serve solely as a domestic airport -- used to quell opposition from nearby Kansai International Airport and the Ministry of Land, Infrastructure and Transportation during construction -- Kobe City Government announced that the first international

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business jet would fly from UKB to Busan, Korea on September 28. The maiden voyage is being chartered by the Japan Business Jet Association for its chairman and members. Japan Aerospace, affiliated with Itochu Corporation, will operate the flight. On October 1, executives from AIG will arrive at Kobe Airport by business jet from the Untied States to attend the Hyogo Management Seminar on October 3. The landing fee for business jets with less than 10 passengers is approximately 6,000 yen. Kobe hopes to capitalize on the increased PR from its charter flights, still rare in Japan, to further expand its international business portfolio. The city expects at least 30 business jets a year.

¶16. (U) Hideo Etani, Director General of the Kobe Branch of the Bank of Japan commented that although the city concentrates on tourist passenger use of the airport, the low load factor for UKB is a warning sign that Kobe needs to focus even more on increasing business traveler use of Kobe Airport.

A380 Unlikely to Have Large Impact on Japanese Airports

¶17. (SBU) U.S. Government Accountability Office (GAO) Physical Infrastructure specialists visited Tokyo from Oct. 4 - 6 to discuss various topics related to the introduction of the Airbus 380 operations. Officials from the Japan Civil Aviation Bureau's (JCAB) Construction, Airworthiness, Air Traffic Control,

International Air Transport, and General Affairs Divisions discussed their role in regulating and certifying the new aircraft, as well as in modifying airport infrastructure and flight operations.

¶18. (SBU) JCAB officials stated that airports such as Tokyo Narita, Nagoya Central Japan (Chubu), and Osaka Kansai anticipate receiving the A380. As far as airport infrastructure is concerned, runways at these airports meet ICAO standards, but some taxiways must be expanded to accommodate the A380. JCAB admitted that while certain operational restrictions would be imposed on the ground, they do not anticipate significant impact on airspace utilization or capacity at major Japanese airports. JCAB airports would adhere to the interim flight separation standards set forth by the ICAO for the A380 aircraft. They believe that initial impact would seem to be minimal, since no Japanese air carriers intend to purchase the A380 in the foreseeable future.

¶19. (SBU) However, officials from Japan Airlines (JAL) told the GAO that they feared longer flight separation requirements would reduce flight slots and cause flight delays.

Sapphire Prince Cruise Ship Docks in Muroran, Hokkaido

¶20. (U) The Sapphire Princess, one of Princess Cruises largest vessels, arrived in the Hokkaido port of Muroran on September 26. This was only the second time in recent years that a cruise ship from the United States has visited Muroran. Some 2600 passengers, most of them American, received a warm welcome in English from Mayor Masashi Shinguu before spending the day touring around the old steel town of Muroran and other nearby areas of Hokkaido, including Sapporo. The one day visit was part of a larger Northeast Asia cruise that left Whittier, Alaska in late September for stops in Russia (Petropavlosk), Japan (Muran, Yokohama and Nagasaki) and China (Tianjin).

SCHIEFFER